IMPACT OF FINANCIAL FACTORS ON STOCK MARKET: EMPIRICAL EVIDENCES FROM INDIA, U.S. AND U.K.

A

Synopsis

Submitted for the Registration of

Degree of Doctor of Philosophy

In Accountancy & Law

(Commerce)

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DAYALBAGH, AGRA-282005

AUGUST-2013

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"Stock exchange in an association, organization or body of individual whether incorporated or not establish for the purpose of assisting, regulating and controlling business in buying selling and dealing security."

-Securities Contracts (Regulation) Act, 1956

Introduction

Financial factors indicate flourishing of any economy and they decide the fortune of investments. The Financial factors influence price determination process in any economy. The delusion of financial factors affects stock and commodity market significantly causing motility in the prices. The stock market promotes economic growth by providing avenue to pool large and long term capital through issuing of shares and stocks and other equities for industries in dire need of finance to expand their clientele. Thus, the overall growth of the economy is a function of how well the stock market performs and empirical evidences have proved the development of the capital market is crucial for economic growth. No doubt, a relationship exists between stock market development and growth of the economy and stock prices are generally believed to be influenced by some fundamental financial factors such as lending rate, inflation, money supply and exchange rate. Empirical evidences have shown that changes in stock prices are linked with financial behaviour in advanced nations.

- **Financial Factors**

A factor that is pertinent to a broad economy at the regional or national level and affects a large population rather than a few select individuals, financial factors such as inflation, savings and investment are key indicators of economic performance and financial performance indicators of listed companies are closely monitored by governments, businesses and consumers. The interplay or relationship between various financial factors is the subject of a great deal of work in the field of Business .Financial factors played a significant role in the growth of the economy as well as economic decision-making.

❖ Stock Exchange

A stock exchange is a form of exchange which provides services for stock brokers and traders to trade stocks, bonds, and other securities. Stock exchanges also provide facilities for the issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends. Securities traded on a stock exchange include shares issued by companies, unit trusts, derivatives, pooled investment products and bonds.

To be able to trade a security on a certain stock exchange, it must be listed there. Usually, there is a central location at least for record keeping, but trade is increasingly less linked to such a physical place, as modern markets are electronic networks, which gives those advantages of increased speed and reduced cost of transactions. Trade on an exchange is by members only.

The initial offering of stocks and bonds to investors is by definition done in the primary market and subsequent trading is done in the secondary marketplace. A stock exchange is often the most important component of a stock market. Supply and demand in stock markets are driven by various factors that, as in all free markets, affect the price of stocks.

❖ London Stock Exchange

The London Stock Exchange is a stock exchange located in the City of London in the United Kingdom. As of December 2011, the Exchange had a market capitalization of US$3. 266 trillion (short scale), making it the fourth-largest stock exchange in the world by this measurement (and the largest in Europe) The Exchange was founded in 1801 and its current premises are situated in Paternoster Square close to St Paul's Cathedral in the City of London. The Exchange is part of the London Stock Exchange Group.

❖ New York Stock Exchange

The New York Stock Exchange (NYSE), sometimes known as the "Big Board", is a stock exchange located at 11 Wall Street, Lower Manhattan, New York City, New York, and United States. It is the world's largest stock exchange by market capitalization of its listed companies at US$16. 613 trillion as of May 2013. Average daily trading value was approximately US$153 billion in 2008.

❖ **Indian stock exchange**

Indian stock exchange may refer to the Bombay Stock Exchange and National Stock Exchange of India. Bombay Stock Exchange, commonly referred to as the BSE, (Bombay Śhare Bāzaār) is a stock exchange located on Dalal Street, Mumbai, and Maharashtra, India. It is the 10th largest stock exchange in the world by market capitalization. Established in 1875, BSE Ltd. (formerly known as Bombay Stock Exchange Ltd.), is Asia's first Stock Exchange and one of India's leading exchange groups.

The National Stock Exchange (NSE) (Hindi: Rashtriya Śhare Bāzaār) is a stock exchange located in Mumbai, India. It is the 11th largest stock exchange in the world by market capitalization and largest in India by daily turnover and number of trades, for both equities and derivative trading. NSE has a market capitalization of around US$1 trillion and over 1,652 listings as of July 2012.

Review of Literature

A literature review is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Literature reviews are secondary sources, and as such, do not report any new or original experimental work. Likewise, a literature review can be interpreted as a critique of an abstract accomplishment. Most often associated with academic-oriented literature, such as a thesis, a literature review usually precedes a research proposal and results section. Its primary goal is to fix the current study within the body of literature and to provide context for the particular reader. A well-structured literature review is characterized by a logical flow of ideas; current and relevant references with consistent, appropriate referencing style; proper use of terminology; and a comprehensive view of the previous research on the topic.

Review	No. of review of literatures
National	10
International	20

National Review of Literatures

S. No.	Year	Author's name	Title of the study	Area/source	Objectives	Major findings
1.	2000	Ravi Agarwal & Shiva Kumar	Impact of derivatives on Indian stock market	India (Online)	To examine whether a decline or rise in volatility can be attributed to introduction of derivatives alone or due to some other macroeconomic reasons.	There is no significant difference in nifty and great futures as well as nifty futures doesn't contribute towards volatility of nifty.
2.	2003	Paramita Mukherjee & Dipankor	Foreign institutional investment in the Indian equity market an analysis of daily flows during January	India (Online)	To examine the relationship of foreign institutional investment (FII) flows into the Indian Equity market	The FII net inflow correlates with the return in Indian equity market and the former is more likely to be the effect than the cause of the Indian equity market return.
3.	2005	Parthapratim pal	Recent volatility in stock markets in India and foreign institutional investors	India (Online)	To investigate how the withdrawal of foreign portfolio capital in the post-election phase has affected the price and the equity holding pattern of different Sensex companies.	It shows the movements of Sensex are quite closely correlated in India and FIIs wield significant influence on the motion of the Sensex.

4.	2006	Dr. G. indhumathi, Dr. m. Selvam,	Impact of mergers on stock return in Indian stock exchange with reference to BSE	India (Online)	To examine the reaction of share prices of acquiring and target companies in BSE to the announcement of the merger	It says, the liberalization policy witnessed an unprecedented number of mergers and acquisitions in India. After the merger between Asahi India glasses Ltd-float glasses India, the acquiring company received negative abnormal returns.
5.	2008	Manmohan Sharma	Foreign institutional investors and Indian stock market	India (Online)	To examine the growth of FII and its impact on the stock market	There is a high degree of volatility due to investments made by the FIIs; it is shown that the FIIs are one of the primary ingredients of growth of Indian stock market.
6.	2008	Amitava sarkar & gagari chakrabarti	Indian stock market volatility in recent years: transmission from global and regional Contagion	India (Online)	To investigate volatility in Indian stock markets.	A/c to this, the volatility in the developed market indices granger causes transmission from global and regional Contagion and traditional domestic sectors
7.	2010	Dr. Gaurav Agrawal & Aniruddh Kumar Srivastav	A study of exchange rate movement and stock market volatility	India (Online)	To analyses the relationship between nifty returns and Indian rupee-us dollar exchange rates	It finds that nifty returns as well as exchange rates were non-normally distributed. The correlation between nifty returns and exchange rates was found to be negative.

8.	2011	Vikram k. Joshi & miss Richa Saxena	Analytical study of impact of FII in Indian stock market with special reference to BSE Sensex	India (Online)	To analyse the impact of variation in FII on Sensex and to study the degree of relationship between them in various FII movement scenarios.	It can be concluded that on an overall basis, when the relationship between Sensex vs. Total turnover & Sensex vs.net investment exists and it is substantial, it produces a positive impact in the Sensex as it starts going up, but when the case is opposite, it tends to stay on a lower side
9.	2011	Prof. Pramod kumar, & kirti khanna,	"Impact of quarterly results on Sensex and market volatility- an empirical research"	India (Online)	To analyse the impact of top most sect oral indices on the BSE benchmark during the quarterly results and to judge the market volatility during the period of quarterly results announcements.	It shows the quarterly results have their impact on the apparent motion of the Sensex and during the period of the announcement of results the market can vary as per their daily rations.
10.	2012	Nidal Rashid Sabri	Roots of stock market volatility and crises: A synthesis and suggested solutions	India (Online)	To explore the causes and interpretations of stock market crises and high price volatility	The study found that the causes and inter-predations of stock market crises reside in various models including: overreaction model, the adverse impact of related laws, increasing linkage model, transmission of volatility model, etc.

International review of literatures

S. No.	Year	Author's name	Title of the study	Area/source	Objectives	Major findings
1.	1998	Jennifer Blouin & Jana Smith	Capital gains taxes and stock reactions to quarterly earnings announcements	US (Online)	To analyse the impact of capital gains taxes on equity pricing.	The results imply that shares trade at higher prices when individual investors face incremental taxes created by selling appreciated shares before they qualify for long-term treatment.
2.	2001	Recep Bildik and Güzhan Gülay	Effects of changes in index composition on stock market: evidence from Istanbul stock exchange	Istanbul (Online)	To examine the cost and volume effects on stocks associated with the changes in value-weighted index composed of two separate indices (ice-100 and I-30)	For the ice-30, tend to generate positive (negative) abnormal returns in the event period until effective change date and trading volume is affected by the outcome significantly.
3.	2004	Li Jin	Capital gain tax overhang and price pressure	US (Online)	To examine the impact of capital gains taxes on equity pricing.	The results imply that shares trade at higher prices when individual investors face incremental taxes created by selling appreciated shares before they qualify for long-term treatment.

4.	2004	Jonathan Williams	Volatility transmission and changes in stock market interdependence in the European community	UK (Online)	By using multivariate black church models to estimate stock market interdependence and the sources of volatility transmission across European stock markets	This study observed the main transmission mechanism between Germany and the US is noise whereas it is price changes between the UK and US.
5.	2005	Andy Puckett & Yan	Short-term institutional herding and its impact on stock prices	UK (Online)	To examine the existence and impact of short-term institutional herding.	It finds that these weekly herds significantly affect the efficiency of security prices.
6.	2005	Brian Manohar	Impact on us macroeconomic surprises on Stock market returns in developed economies	US (Online)	To analyse the role of the US economy plays in the global economic environment, US macro-economic shocks are expected to affect asset returns in other countries.	It shows that residual returns and conditional volatilities in major developed economies are significantly impacted by US macroeconomic surprises.
7.	2009	Indika Karunanayake & Abbas	Financial crises and stock market volatility transmission evidence from Australia, Singapore, the UK, and the US	Australia, Singapore, the UK, and the us (Online)	To examine the interdependence of return and co- volatility across four highly integrated international stock markets due to the financial crisis	There was no significant impact on returns arising from 1998 and 2008 global financial crises within these four markets. Nonetheless, the recent crisis in 2008 increased the stock return volatilities across all of the four markets.

8.	2009	António Afonso and Ricardo	The macroeconomic effects of fiscal policy	US, the UK, Germany, and Italy (Online)	To investigate the macroeconomic effects of fiscal policy using a Bayesian structural vector auto regression approach.	The results show that government spending shocks, in general, have a small effect on GDP; lead to important "crowding-out" effects; have a varied impact on housing prices and generate a quick fall in stock prices.
9.	2010	V.f. Mlonzi,	Share price reaction to earnings announcement on the use-altx: a test for market efficiency	Johannesburg stock exchange (Online)	To investigate whether there are any significant abnormal returns related to the public announcement of earnings	There is substantial negative share price reaction to earnings announcements on the stock market.
10.	2010	Rufus a. Allowed	Exchange rate volatility, global financial crisis and the day-of- the-week effect	Nigerian foreign exchange market (Online)	To investigates the day-of-the-week effect in the Nigerian foreign exchange market	A/c to this, the results failed to support the presence the day-of-the week effect in the forex rate returns.
11.	2010	Jiangang peng jie cui fuyong qin	Stock prices and the macro Economy in china	China (Online)	To analyses the relationship between stock prices and the Chinese macro economy.	It detects that there is strong evidence of long-run causality from the economy to the stock market but not vice versa. .
12.	2010	Indika karunanayake,	The effects of financial crises on international stock market volatility transmission	Australia, Singapore, the UK, and the US (Online)	To examine the nature of such an interaction between stock market returns and their volatility.	There is a high degree of time-varying co-volatility among these markets.

13.	2011	Samuel Imarhiagbe	Impact of oil prices on stock markets: Empirical evidence from selected major oil Producing and consuming countries	Mexico, Russia, Saudi Arabia, India, China, and the US (Online)	To analyses the impact of oil prices on stock prices of selected major oil Producing and consuming countries with nominal exchange rate as additional determinant.	It finds, In all countries, variance decomposition and impulse response tests confirm the existence of oil prices and exchange rates influences overstock prices.
14.	2011	Isaac olasuni	Stock market volatility and macroeconomic variables Volatility in Nigeria	Nigeria (Online)	To examine the volatility in the stock market and Macroeconomic variables.	There is no causal relationship between stock market volatility and the volatility in interest rate and inflation rate.
15.	2011	Ricardo	The price and volatility transmission of international financial crises to the south African equity market	South African equity market (Online)	To determine returns and volatility transmission effects from international markets to south Africa	Trade and financial linkages and linkages related to investor behavior were the primary causes of the transmission of contagion effects during a fiscal crisis.
16.	2012	Istemi Berka	Crude oil price shocks and stock returns	Turkish stock market (Online)	To investigate the impact of crude oil price fluctuations on the Turkish stock market returns	It finds that crude oil price shocks have been rationally evaluated in the Turkish stock market.

17.	2012	Paul Beaudry and Franck Portier	Stock prices, news and economic fluctuations	London stock exchange (Online)	To examine the relationship b/w stock prices and economic variables	There is a positive relationship b/w stock prices and economic variables
18.	2013	O'brien	The analysis of relationship between stock prices and exchange rates in Iran	Iran (Online)	To examine the relationship between stock prices and exchange rates in Iran.	It investigates the statistical relationship between stock prices and exchange rates using granger causality and Johansen Co integration tests in Iran.
19.	2013	Ser-Huang Poon	Malaysia and the Asian financial crisis	Malaysian stock market (Online)	To analyses the Malaysian share of the 1997 Asian crisis.	There is a potent sign of mean-reversion in every Asian country affected by the crisis.
20.	2013	Robert c. Ready	Oil prices and the stock market	US (Online)	To examine the relation between oil prices and stock returns.	It shows negative effect of supply shocks is not concentrated in industries with heavy oil use.

Need of the Study

The Stock market is an important component of the economic system of a country. The stock market plays a pivotal role in the development of the industry and commerce of the area that eventually affects the economic system of the country to a great extent. The Stock market is viewed as a very important component of the financial sector of any economic system. Furthermore it plays a vital role in the mobilization of capital in many of the emerging economies. There are many factors which affect the stock market behaviour rapidly. The variation due to the different factors reflects its impact on the economy also. It is said that if one wants to discover the economic structure of the country, he/she should read out the behaviour of the securities markets. So, in the above context, there is a need to conduct present research to investigate the relationship between stock exchanges and financial factors.

Objectives of the study

The study will be conducted with a view of the following objectives:-

- To examine the stock markets of India, U.S. and U.K. with regard to State influence.
- To identify and analyse the financial factors in selected stock markets.
- To investigate the relationship among India, U.S. and U.K. stock markets on financial factors.
- To analyse the impact of financial factors on selected stock markets.
- To recommend an action plan for sound investment decisions in international scenario.

Research Methodology

To accomplish the above objectives of the study, the following research methodology is proposed:

❖ **Sampling Technique**

For attaining different objectives New York Stock Exchange (NYSE), Bombay Stock Exchange (BSE), National Stock Exchange (NSE) and London Stock Exchange (LSE); belongs to the U.S., India, and the U.K. as per their benchmarks DJIA, Sensex, S&PCNX Nifty, FTSE100 respectively will be taken into consideration because these stock exchanges are the largest stock exchange in the world by both market capitalization and trade value.

- **Data collection for Research**

For the purpose of the study secondary data will be taken into consideration.

Secondary Data: Secondary data will be collected from reports and researches published in journals, web sites periodicals, magazines, newspapers, Annual Financial Reports, and other reports of selected companies.

- **Tools for Analysis**

For achieving the above mentioned objectives, different set of techniques and tests will be used. That will be descriptive statistical techniques and inferential statistical techniques. Graphical and tabular mode will also be used for presentation of information.

- **Duration of the study**

For the purpose of analysis of data, a period of seven financial years from 2005-06 to 2012-13 will be taken into consideration.

- **Specific Methodology**

S.No.	Objectives	Methodology
1.	To examine the stock markets of India, U.S. and U.K. with regard to State influence.	For achieving this objective, the researcher will examine the legal frame- work of selected stock markets.
2.	To identify and analyse the financial factors in selected stock markets.	This objective will be gathered through the descriptive statistical techniques.
3.	To investigate the relationship among India, U.S. and U.K. stock markets on financial factors.	This objective will be met through the descriptive statistical techniques and inferential statistical techniques.
4.	To analyse the impact of financial factors on selected stock markets.	In this particular objective regression will be applied.
5.	To recommend an action plan for a sound investment decisions in international scenario.	For this particular objective inferential statistical technique will be used.

Research Hypotheses

The following hypotheses will be tested during the study.

H_{01}: There is no significant relationship among India, U.S. and U.K. stock markets on financial factors.

H_{02}: There is no impact of financial factors on selected stock markets.

❖ Proposed Chapter Plan

Chapter Number	**Chapter Name**
Chapter One	Introduction and Review of Literature
Chapter Two	Financial factors in selected stock market
Chapter Three	Conceptual framework of selected stock markets
Chapter Four	Analysis of financial factors
Chapter Five	Findings and Conclusions
Chapter Six	Suggestions and Recommendations

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